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**Macroeconomic policy questions: international trade
and development**

International trade and development**Report of the Secretary-General***Summary*

Reinvigorating the global partnership for development and ensuring effective functioning of the multilateral trading system should be a key element of the global development agenda beyond 2015. International trade, a powerful catalyst for achieving socioeconomic objectives, should also feed into other sustainable development objectives beyond 2015. Trade is essential for inclusive growth through more and better jobs, contributing to a more diversified economy and sustained development and promoting higher living standards in all countries. The trade-development nexus is not automatic and requires strong institutional and policy support at the national level, as well as coherence in global policymaking internationally, particularly to ensure the inclusiveness and sustainability of the development path. Strengthening the multilateral trading system in the presence of proliferating regional trade agreements and reinvigorating its development dimension in the light of the new economic realities is critical to creating an enabling environment for future global growth. New "soft rule-making" approaches should be taken into consideration when addressing the question of how to reach consensus both on the "old" (e.g., tariff peaks and escalation and agricultural subsidies) and the "new" trade agenda (e.g., competition policy and investment).

* A/68/150.



Contents

	<i>Page</i>
I. Introduction	3
II. Trends in international trade	3
A. Global trade and its context	3
B. Merchandise trade	4
C. Trade in services	7
D. Observations on trends in trade in relation to sustainable development	9
III. Developments in the multilateral trading system	14
A. Overview of the multilateral trading system	15
B. The Doha Development Agenda and the forthcoming Ministerial Conference of the World Trade Organization	16
C. Plurilateral approaches within the World Trade Organization	18
D. Regional trade agreements	20
E. Implications of the "new" regionalism for developing countries	23
F. Other "new" issues and challenges	24
IV. Conclusions	27

I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 67/196, in which the Secretary-General was requested to submit to the General Assembly at its sixty-eighth session, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), a report on developments in the multilateral trading system. It examines the emerging trends and issues in international trade and reviews the major developments in the multilateral trading system.

II. Trends in international trade

A. Global trade and its context

2. After expanding strongly by 6.9 per cent in 2011, global trade volume (i.e., exports and imports in goods and services adjusted for price changes) decelerated markedly to 2.7 per cent in 2012.¹ This largely reflects falling demand associated with subdued global economic activity. World output grew by only 2.3 per cent in 2012 as compared to 2.8 per cent in 2011. Weak economic activity in developed countries, deceleration in some developing countries, high unemployment, recurring uncertainties in the financial markets and reduced public spending appear to have severely discouraged trade in both developed and developing countries. Growth in world trade is projected to pick up again to 3.5 per cent in 2013, while that of global output is expected to stay at the same level.

3. Developed countries suffered from weak output growth of just 1.2 per cent in 2012. The United States of America registered an improved growth rate of 2.2 per cent while European Union economies contracted by 0.3 per cent against the backdrop of the eurozone debt crisis. The global economy continued to be fuelled by developing countries that exhibited a higher growth rate of 4.6 per cent, with particularly strong growth recorded in East and South-East Asia (5.5 per cent) and Africa (5.1 per cent). The risk to the global economy that has emerged is that the pace of growth in many large developing countries, which acted as major growth poles in the post-crisis recovery, has started to decline noticeably, most obviously in China. This has had a measurable effect, particularly on commodity exporters. Global foreign direct investment (FDI) inflows also contracted sharply by 18 per cent in 2012.

4. Pervasive and persistent unemployment worldwide continues to weigh heavily on global aggregate demand, constraining trade opportunities. With a global unemployment rate of 5.9 per cent in 2012, there were some 196 million people unemployed and around 39 million people have dropped out of the labour market as job prospects have become so difficult.² Joblessness is particularly severe in Europe, where the unemployment rate hit a record high of 12.1 per cent in March 2013, including levels of over 26 per cent in Spain and Greece, but developing regions are also affected, including the Middle East (11.1 per cent), North Africa

¹ *World Economic Situation and Prospects 2013* (United Nations publication, Sales No. E.13.II.C.2), update as of mid-2013.

² International Labour Organization, *World of Work Report 2013: Repairing the Economic and Social Fabric* (Geneva, 2013).

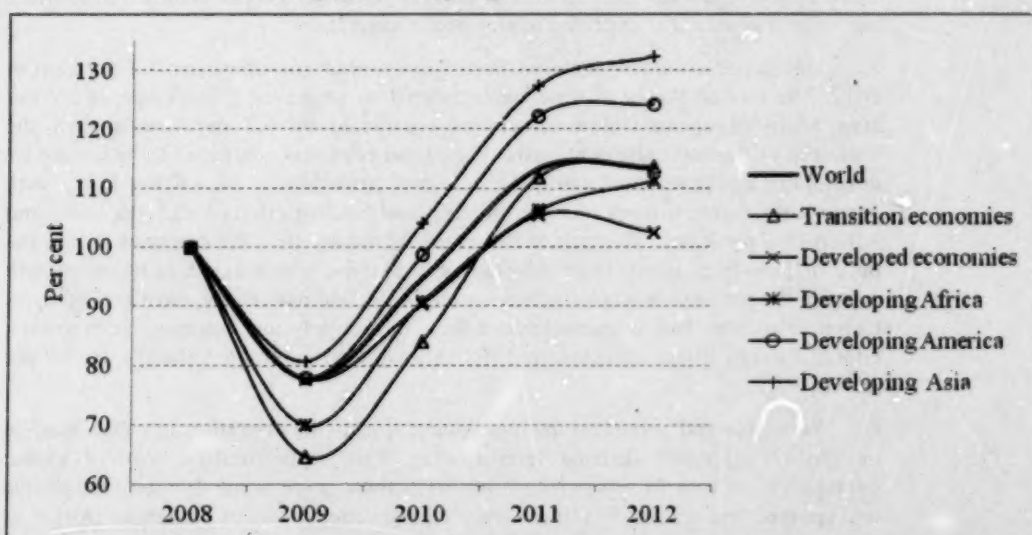
(10.3 per cent) and sub-Saharan Africa (7.5 per cent). The youth are particularly hard hit with 73.8 million of them worldwide without jobs, equivalent to a global youth unemployment rate of 12.6 per cent. Youth unemployment has a particularly perverse effect on the economy, as it is deprived of opportunities for human capital formation and a source of economic growth and is bad for society as it erodes social cohesion. This suggests the importance of well-designed labour market and social protection policies, combined with education and training geared towards sectors with high growth potential.

B. Merchandise trade

5. In nominal value terms, world merchandise exports stood at \$18.3 trillion in 2012. This was almost the same as 2011, as the export value barely increased (0.2 per cent) after having rebounded dynamically by 19.6 per cent in 2011. Exports from developing countries expanded by 3.6 per cent in 2012, while those of developed countries contracted by 2.8 per cent in absolute terms. Consequently, the share of developing countries in world trade climbed to an all-time high of 44 per cent. South-South exports represented 56.5 per cent of the merchandise exports of developing countries, and 25.1 per cent of the world total. Compared to pre-crisis levels, all regions had surpassed their 2008 levels by 2011 (figure I).

Figure I

Evolution of merchandise export value by region 2008-2012 (2008=100)

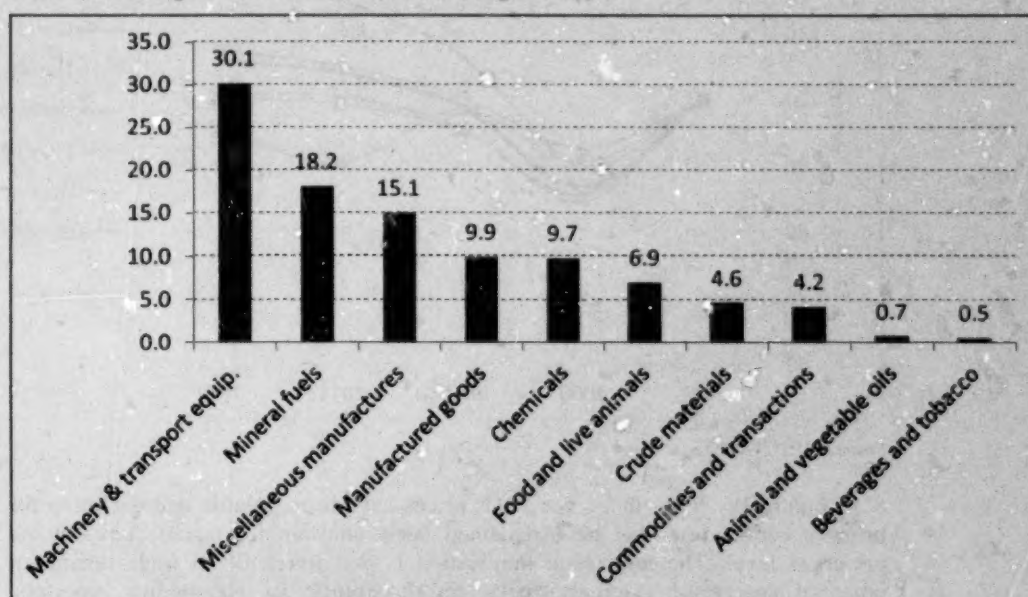


Source: UNCTADStat.

6. The strong recovery of the exports of developing countries during this period was driven by heavily traded machinery and transport equipment, mineral fuels and miscellaneous manufactured goods (figure II). A significant part of increased mineral fuel exports was triggered by rising prices between 2009 and 2011, while the relative dynamism of manufactures reflects an increase in quantity terms and the high responsiveness of trade within global value chains to changes in demand. This

corresponds to the rapid export growth of Asian countries and South-South trade. Asia accounts for over three quarters of total South-South exports and exhibits a higher concentration of technology-intensive manufactured goods relative to the world average.

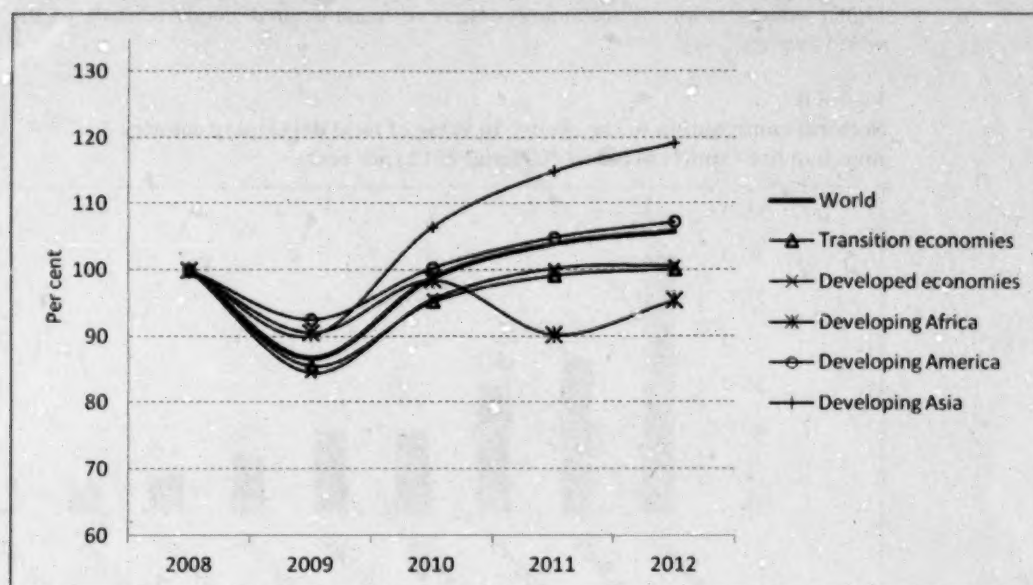
Figure II
Sectoral contribution to the change in value of total developing country merchandise exports between 2008 and 2012 (per cent)



Source: UNCTADStat.

7. In volume terms, world merchandise exports exhibited a sharp slowdown in 2012, expanding only by 1.6 per cent as compared to 5.4 per cent in 2011. The trajectories of export recovery diverged between regions: the export growth of developing countries was more dynamic but limited to 3.2 per cent, while in developed countries export volume increased by only 0.4 per cent. Despite the apparent expansion of trade in value terms, the effect of the crisis appears to be continuing to affect many regions in volume terms (figure III). In aggregate, world merchandise export volumes regained their pre-crisis levels by the end of 2010 and surpassed that level by around 6 per cent in 2012, with the fastest recovery registered by developing Asia. However, transition economies and Africa had not yet achieved their pre-crisis level.

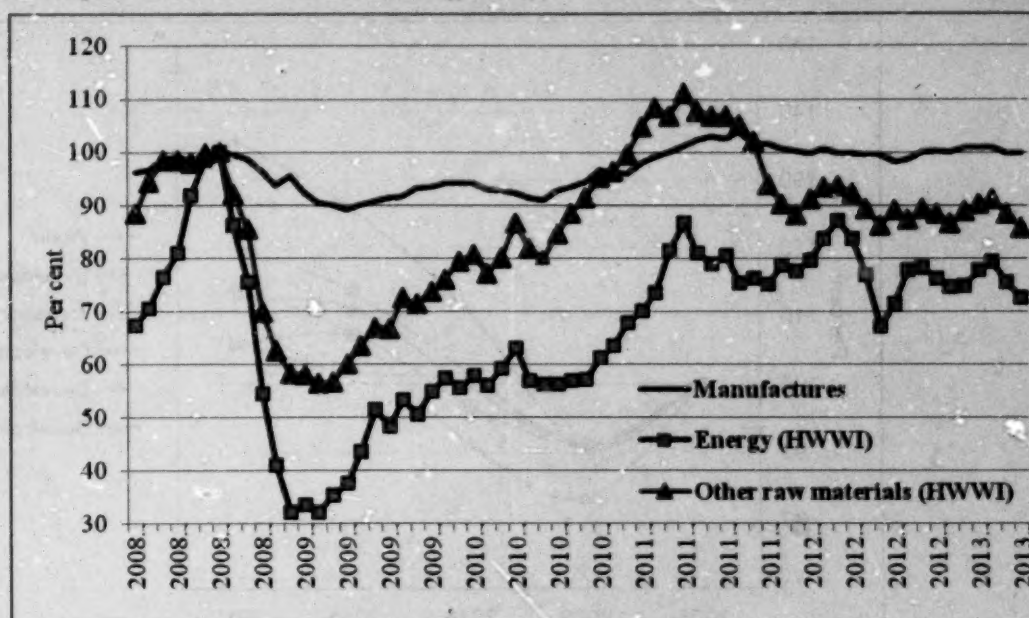
Figure III
Evolution of merchandise export volume by region 2008-2012 (2008=100)



Source: UNCTADStat.

8. Figure IV shows that since 2011, prices have been volatile and declining for primary commodities but have remained fairly constant for manufactures at the pre-crisis level. The immediate implication is that international trade remains a potential source of external shocks and instability for commodity exporters. Commodity exports, especially of metals, minerals and energy, continue to fluctuate widely, depending on changes in demand triggered by fluctuations in production and income in the countries producing manufacturing products. Their impact on commodity exports is often manifested as a fall in both volume and price. For their part, manufactured goods have not shown, in aggregate, a sustained price rise since the pre-crisis peak. This may suggest that worldwide weak demand has triggered a "race to the bottom", whereby countries individually facing sluggish domestic demand seek to increase exports by cutting prices.

Figure IV
World price index of manufactures, energy and other raw materials (July 2008=100)



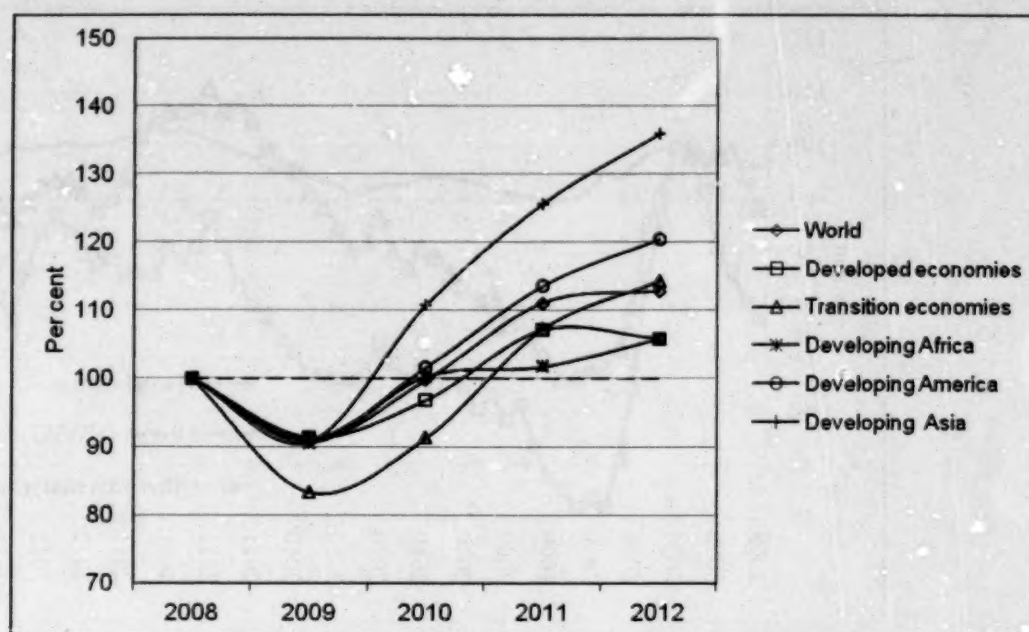
Source: CPB Netherlands Bureau for Economic Policy Analysis.

9. The recent currency appreciation in some developing countries following increased capital inflows, against the backdrop of monetary expansion in some developed countries, represents an emerging risk for their export competitiveness. The Chinese renminbi reached a 19-year high against the dollar in the second quarter of 2013. The currencies of some developing countries, including Brazil, Mexico and the Philippines, appreciated in nominal terms, leading to concern over their adverse effect on export sectors.

C. Trade in services

10. The value of global services exports increased modestly by 1.6 per cent in 2012. Developing countries registered a robust growth rate of 7.6 per cent, while developed country exports contracted by 1.2 per cent. The value of world commercial services exports reached \$4.3 trillion, equivalent to 20 per cent of total exports of goods and services. This share has been continuously rising as exports of services have expanded at a faster pace than that of manufactured goods. The share in world services exports of developing countries climbed to 31 per cent in 2012 for the first time, driven by a rapid expansion in Asian services exports (figure V).

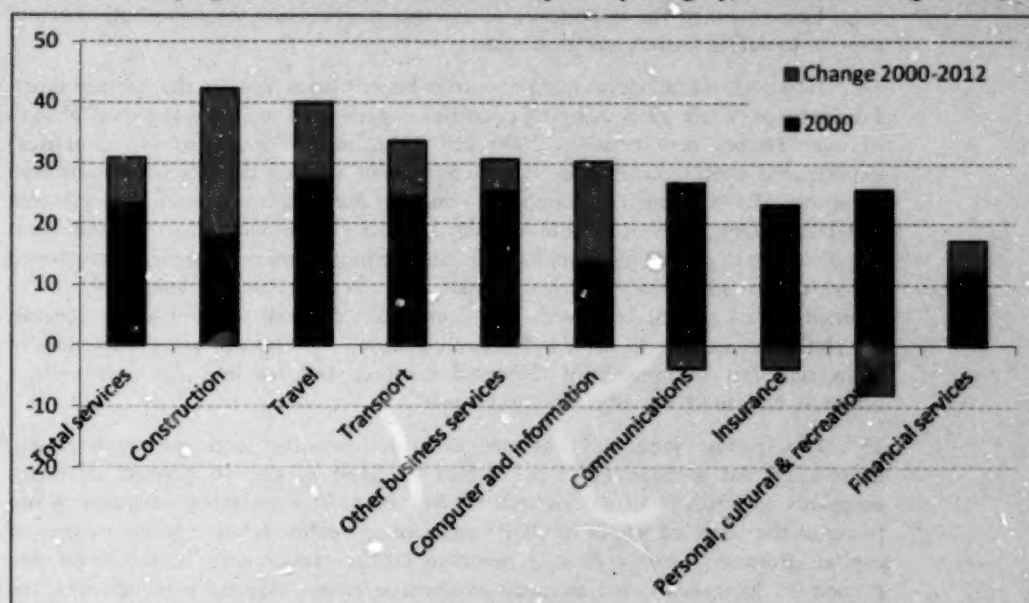
Figure V
Evolution of services exports by region (2008=100)



Source: UNCTADStat.

11. Between 2000 and 2012, developing countries increased their market share in 7 of the 10 subsectors as they gained export competitiveness (figure VI). The share of developing countries is the highest in construction and travel services at about 40 per cent, followed by transport and other business services. Particularly rapid growth was registered in computer and information services associated with outsourcing services in information technology. Additional sectoral data suggest that the dynamic growth in exports of computer and information and travel services led the recovery for exports of developing country services. International tourism receipts grew by 4 per cent to reach \$1.1 trillion in 2012 and the number of tourist arrivals rose by 4 per cent.

Figure VI
Share of developing countries in world services exports by category, 2000 and 2012 (per cent)



Source: UNCTADStat.

12. Global remittances, including transfers associated with temporary movement, are estimated to have increased by 2.8 per cent in 2012.³ This value is estimated at \$529 billion, about \$401 billion of which was destined for developing countries. Flows to developing countries increased by 5.3 per cent in 2012 and are expected to increase even faster at 8.8 per cent between 2013 and 2015. Remittances are a major source of financial resources for many small economies, representing 20-50 per cent of GDP in Kyrgyzstan, Liberia and Tajikistan. Facilitating labour mobility, including through mode 4 of the General Agreement on Trade in Services (GATS), easing remittance transfers and directing them into productive use has been recognized as a key challenge.⁴ Lowering remittance costs — currently at 9 per cent on average — particularly in smaller migrant “corridors” (i.e., pairs of countries sending and receiving remittances) is important.

D. Observations on trends in trade in relation to sustainable development

13. Trade provides the means to overcome constraints posed by small domestic markets and access larger external markets, enabling a better use of productive resources to catalyse structural transformation. Over the last decade, trade has grown persistently faster than GDP (except in 2009), resulting in an increased exports to GDP ratio; in developing countries the average figure rose from 30 per cent to a pre-crisis peak of 36 per cent by 2008 (32 per cent in 2012). The share of

³ World Bank, Migration and Development Brief No. 20 (Washington, D.C., 2013).

⁴ See UNCTAD/DITC/TNCD/2011/8 and UNCTAD/DITC/TNCD/2010/8.

developing countries in world merchandise exports has expanded from 24 per cent to 44 per cent in the last two decades and in world output from 17 per cent to 36 per cent. Consequently, the importance of external markets and the contribution of net exports to output growth has increased.

14. However, not all developing countries benefit from trade in the same manner. For instance, while 23 developing countries experienced real annual export growth of over 10 per cent between 2000 and 2012, nearly one third (46 countries) experienced export contraction. Persistent current account deficits were registered by 90 out of 134 countries, while in 59 countries the deficit reached over 5 per cent of GDP, making them vulnerable to external shocks and placing them at an inherent disadvantage in pursuing export-led growth. The participation of the least developed countries and sub-Saharan Africa in trade remains marginal and vulnerable to the fluctuations of commodity prices. For commodity-dependent countries in general, the challenge remains to pre-empt "Dutch disease" — a loss of competitiveness in manufacturing resulting from increased resource inflows into the commodities sector — and, more broadly, "resource curse".

15. The income inequality between countries remains large, although slowly decreasing. An average GDP per capita of \$160 in the 10 poorest countries compares to \$50,180 in the richest 10. Within most economies, inequalities are rising as the share of wages in GDP continues to decline relative to the owners of capital. Between 1999 and 2011, average labour productivity in the developed economies increased twice as much as average wages. Among wage earners, the difference between high-skilled and low-skilled workers is increasing as wages for high-skilled workers have grown faster than low-skilled workers, with an increased skill premium. The informal economy represented on average 60 per cent of the workforce in developing countries where working conditions are precarious. Trade impacts employment and wages at the sectoral and occupational level, contributing to increasing inequality within countries.

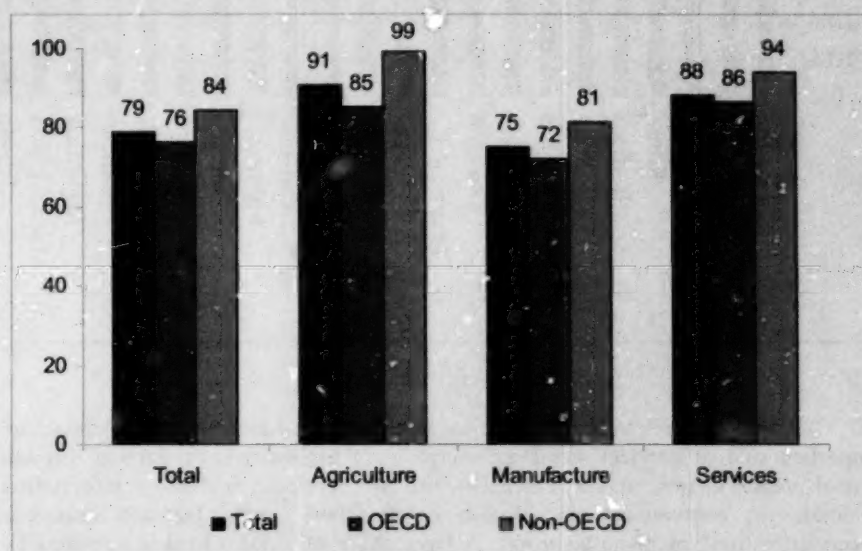
16. These effects of trade on growth, jobs and development will be further influenced by emerging trends that will increasingly condition the patterns and consequences of trade. One such trend is the increased prevalence of global value chains, another is the growing developmental importance of the services economy and the trade in services. Global value chains have existed for several decades but became salient in the 2000s, enabled by technological advances in information and communications technology and transport, which reduced transaction and coordination costs. It is characteristic of this trade that intermediate goods and services cross borders several times before being assembled into final products. Trade in intermediate goods has indeed increased since 2002, driven particularly by intra-East Asian trade, and in 2011 it represented 40 per cent of world trade. Trade in global value chains is particularly prevalent in the electronics and automotive industries and is a reflection of the business strategies of transnational corporations. UNCTAD estimates that about 80 per cent of global trade involves transnational corporations.⁵

17. The rise of trade in global value chains has highlighted the inadequacy of existing trade statistics that measure the value of traded products in gross value

⁵ *World Investment Report 2013. Global Value Chains: Investment and Trade for Development* (United Nations publication, Sales No. E.13.II.D.5).

terms, as the value of foreign value added incorporated into imported inputs is counted several times. Measured in net value added terms, domestic value added accounted on average for 79 per cent of the value of gross world exports in 2009 (figure VII), implying that 21 per cent originated in other countries supplying intermediate goods.⁶ The proportion of domestic value added is higher in countries that are not members of the Organization for Economic Cooperation and Development (OECD) than in OECD countries and lower in manufactures than in the agriculture and services sectors, indicating a greater participation in global value chains of developed countries which trade manufactures more intensively.

Figure VII
Domestic value added share of gross exports, by sector (2009, per cent)

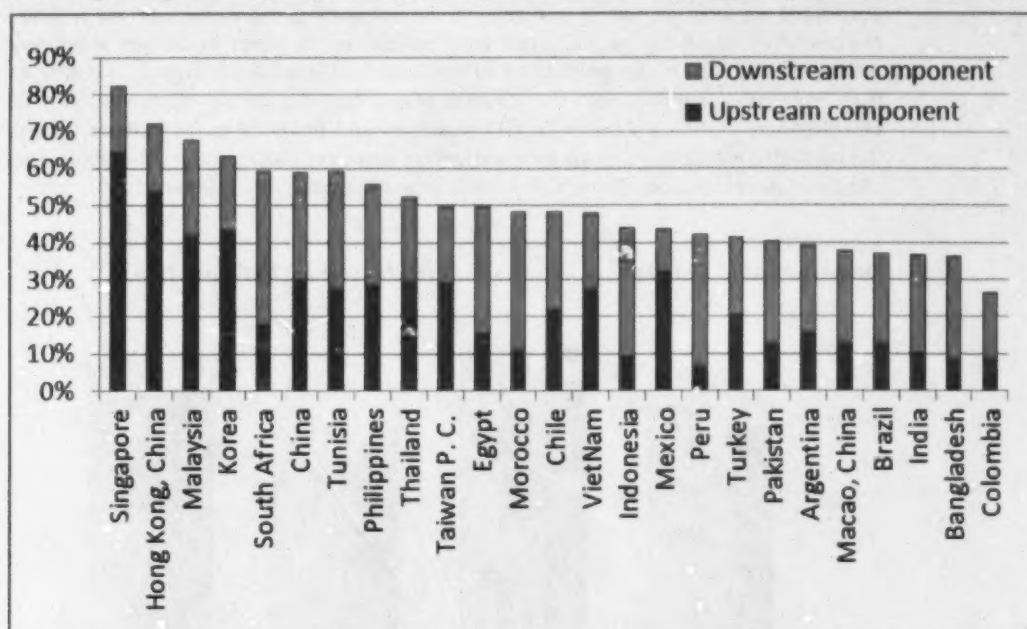


Source: OECD-WTO TiVA database.

18. The degree of involvement of countries in global value chains can be measured by looking upstream and downstream of the value chain, i.e., by observing the extent to which countries rely on foreign inputs for their exports and the extent to which the goods and services they export are used in the exports of partner countries (figure VIII). The main Asian exporters rank highest in terms of participation in global value chains, as they both import a substantial part of their exports and a significant part of their exports are used in the exports of third countries. Commodity exporters (e.g., Indonesia) are integrated in value added in other countries downstream. Participation in global value chains is registered as relatively low for larger economies (e.g., India and Brazil) as they tend to specialize in agriculture and services requiring limited foreign inputs and exhibit greater self-sufficiency in different stages of production for exports.

⁶ OECD-World Trade Organization (WTO) TiVA database: www.oecd.org/trade/valueadded.

Figure VIII
Rate of participation in global value chains of the top 25 developing economy exporters (2010)



Source: UNCTAD, World Investment Report 2013, figure IV.13.

19. As countries seek to capture a larger share of value added and employment, the important role of services has been increasingly recognized. Production through global value chains makes extensive use of services, including information technology, communications, logistics, transport and business services ("servicification" of manufacturing). A large share of value added is captured by essential service activities upstream (research and development, product design) and downstream (marketing, sales and distribution) of the value chain. The international production networks of transnational corporations are heavily geared towards providing those value added inputs required to generate trade. While the share of services in gross exports worldwide is only about 20 per cent, almost half (46 per cent) of the value added in exports was contributed by service sector activities in 2009. This share is higher in developed countries (50 per cent) than in developing countries (38 per cent), suggesting that greater value added tends to be captured by developed countries, where transnational corporations tend to originate, and this is achieved through services activities. Two thirds of global FDI stock is concentrated in services (see figure IX).

20. Globally, services account for two thirds of world output and 44 per cent of employment. Many more jobs were created in the services sector than in manufacturing or agriculture in recent years. The trade in services has expanded faster than the trade in merchandise and developing countries have increased their share. The development of services contributes significantly to economy-wide growth. Infrastructure services (e.g., energy) are essential inputs to all economic activities while others with an important social function (e.g., health, education) are

essential for the international development agenda beyond 2015.⁷ Technology-intensive, modern, exportable business services exhibit strong positive externalities (e.g., technology diffusion). This transformational potential of services creates a real opportunity for services-driven development. Policy, regulatory and institutional frameworks best adapted to local conditions and sectoral specificities are key to harnessing the potential of services. Comprehensive services policy reviews are instrumental in devising such frameworks.⁸

Figure IX

Share of services in trade, employment, GDP and FDI (per cent)



Source: WIR 2013, UNCTADStat and ILO Global Employment Trends 2013.

Box 1

Global Services Forum

The Global Services Forum was first launched at the thirteenth session of UNCTAD (UNCTAD XIII) in 2012, in Doha as a unique high-level global platform dedicated to services. The second Global Services Forum was held on 28 and 29 May 2013 in Beijing on the theme of services as a new frontier for sustainable development. The Beijing communiqué adopted by the leaders present at the Forum highlighted the important role played by services in income generation and job creation. The deliberations emphasized that the multifaceted and transformational power of the services sector has created an unprecedented opportunity for

⁷ UNCTAD, *Services, trade and development* (Geneva, 2010); UNCTAD, *Services, Development and Trade: the Regulatory and Institutional Dimension of Infrastructure Services*, vols. I and II (Geneva, 2013) and TD/B/C.I/MEM.4/2.

⁸ See, for instance, services policy reviews of Lesotho (UNCTAD/DITC/TNCD/2012/1), Uganda, Kyrgyzstan and Nepal (UNCTAD/DITC/TNCD/2010/1-3).

a new services-driven development path and for the positive integration of developing countries into the global services economy and that trade is of critical developmental importance.

21. While facilitating access to the markets of developed countries, global value chains also require greater efficiency and competence from suppliers. Policies that enhance the competitiveness, reliability and efficiency of enterprises are particularly important. In the past, the competitiveness of enterprises in developing countries was mainly based on trade policies, often in the form of preferential market access. Trade policies although still important, are no longer sufficient. This is not only because of the erosion of preference and the decline of tariffs; since the emergence of global value chains as a business model, a broader range of economic policies, going beyond trade policy, have become more important. Competitiveness is determined by various factors, especially the quality of policies influencing not only trade but also the overall business environment. Many developing countries lack the resources to implement such policies. In the absence of national policies which support business, they risk continuing to participate in global value chains as providers of components with low value added and with a limited contribution to their economic development.⁹

22. This serves as a reminder that the successful transmission of gains from trade integration, including through global value chains, to broad-based inclusive development is not automatic and still needs to be established through conscious policy efforts. Beyond market opening, this depends on many factors, including endogenous productive, human and technological capacities, as well as well-functioning labour markets. The creation of a strong link between productive investment and exports is important. Such an investment-export nexus does not emerge automatically from trade opening. This is, in part, because which goods and services are traded matters more than the volume of trade.

23. National trade policy alone, therefore, cannot put in place the conditions necessary to achieve inclusive development. Trade policy needs to be defined as a central component of a coherent and integrated strategic development framework and designed to enhance the link between trade, productive investment and employment creation by promoting diversification into higher value-added activities and opening new investment opportunities. Different combinations of macroeconomic, industrial, services, technology and labour market policies will be needed to ensure that trade is harnessed to inclusive and sustainable development. The role of the State is pivotal in identifying policy mixes that are the best fit for national circumstances and conditions.

III. Developments in the multilateral trading system

24. As the international community prepares to negotiate the development agenda beyond 2015, ensuring a pattern of growth and development that is inclusive and

⁹ Alessandro Nicita, Victor Ognitvsev and Miho Shirotori, "Global supply chains: trade and economic policies for developing countries", Policy Issues in International Trade and Commodities, Study Series No. 55 (Geneva, UNCTAD, 2013).

(economically, socially and environmentally) sustainable is a central policy objective in addition to eradicating extreme poverty by 2030.¹⁰ Although not sufficient, trade and the multilateral trading system are necessary conditions for growth and development and need to be an integral part of a global governance strategy towards inclusive and sustainable development. The multilateral trading system is witnessing major challenges as the 12-year World Trade Organization (WTO) Doha Round negotiations are at an impasse and attention is increasingly shifting to "plurilateral" and regional approaches.

A. Overview of the multilateral trading system

25. The multilateral trading system continues to enjoy legitimacy as the unique global public good supporting the stability and predictability of international trade. High-intensity protectionist measures feared in the aftermath of the crisis were relatively well contained thanks largely to the adherence of countries to WTO norms, to their self-restraint and to additional initiatives undertaken by other groups, such as the Group of 20 (G20). WTO estimates suggest that as of June 2013, the restrictive measures implemented since the crisis covered a relatively modest 3.6 per cent of world merchandise trade (table 1).¹¹ Trade remedy investigation (especially anti-dumping) remains the most frequently implemented, followed by import tariff increases, affecting such products as machinery and mechanical appliances, electrical equipment and iron and steel.

Table 1
Trade-restrictive measures

Type of measure	Mid-May to mid-October 2010 (3 months)	Mid-October 2010 to April 2011 (6 months)	May to mid-October 2011 (6 months)	Mid-October 2011 to mid-May 2012 (7 months)	Mid-May to mid-October 2012 (5 months)	Mid-October 2012 to mid-May 2013 (7 months)
Trade remedy	33	53	44	66	46	67
Import	14	52	36	39	20	29
Export	4	11	19	11	4	7
Other	3	6	9	8	1	6
Total	54	122	108	124	71	109
Average per month	10.8	20.3	18.0	17.7	14.2	15.6

Source: WTO, Report on G20 Trade Measures, table 1.

26. The continued legitimacy of the multilateral trading system is also evidenced by the fact that it continues to attract new members and is headed towards universality. The membership of the Lao People's Democratic Republic and Tajikistan became effective in 2013, bringing WTO membership to 159. Thirty-one

¹⁰ United Nations, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*. Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (New York, 2013).

¹¹ WTO, *Report on G20 Trade Measures* (Geneva, 2013), available from http://www.wto.org/english/news_e/news13_e/g20_wto_report_jun13_e.doc.

countries, including the Russian Federation, have acceded since the establishment of the WTO in 1995, 16 of which since the launching of the Doha negotiations in 2001.¹² Nevertheless WTO accession represents an important challenge for acceding countries as they need to undertake substantial policy reforms to comply with WTO rules and disciplines, which could set a limit to the ability of Governments to implement proactive policies, including for development purposes. Carefully designed and balanced terms of accession consistent with development status and needs, particularly for the least developed countries, have proved to be important.

B. The Doha Development Agenda and the forthcoming Ministerial Conference of the World Trade Organization

27. The Doha Round was launched in 2001 with a broad-based agenda under a single undertaking, while giving priority attention in the sequence of negotiations to the difficulties of implementation for developing countries and special and differential treatment to redress the imbalances left unaddressed under the previous Uruguay Round. The original intention was to conclude the Doha Round by 2004.

28. In hindsight, a large agenda going beyond the built-in agenda of agriculture and services delayed progress while the promise of a development agenda failed to be effectively delivered. Concern over the employment consequences of market opening in industrial sectors became acute as the economic cycle entered a downturn. The appropriate level of contribution to be made not only by developed, but also by the larger developing, countries became a persistent source of disagreement. Some institutional and other factors underpinning the negotiations were also found to be contributing to the impasse. Frequently cited were consensus-based decision-making, the large and diverse membership, the single undertaking principle, an outsized negotiating agenda, a lack of leadership, weakened interest from the business community and what was seen by some developing countries as insufficient transparency and inclusiveness.

29. Current efforts under the Doha Round are concentrated on finding concrete "deliverables" at the ninth WTO Ministerial Conference to be held from 3 to 6 December 2013 in Bali, Indonesia, focusing on trade facilitation and several agricultural and development issues.

30. The negotiations on trade facilitation are aimed at improving disciplines on customs procedures, including the transit of goods. It is estimated that reducing global trade costs by 1 per cent will increase worldwide income by \$40 billion and the potential cost reduction of trade facilitation reform is greater for developing countries: 13-15 per cent, as compared to 10 per cent for OECD countries.¹³ Improved availability of information, the harmonization and simplification of documents, risk management and the streamlining of border procedures are found to have a larger effect on reducing costs. While recognizing the case for trade

¹² The 24 countries currently in the process of accession are: Afghanistan, Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Comoros, Equatorial Guinea, Ethiopia, Iran (Islamic Republic of), Iraq, Kazakhstan, Lebanon, Liberia, Libya, Sao Tomé and Príncipe, Serbia, Seychelles, Sudan, Syrian Arab Republic, Uzbekistan and Yemen.

¹³ Evdokia Moïse and Silvia Sorescu, "Trade facilitation indicators: the potential impact of trade facilitation on developing countries' trade", OECD Trade Policy Papers, No. 144 (Paris, OECD, 2013).

facilitation, some developing countries are concerned over implementation costs as some measures (e.g. single window) are relatively costly and therefore seek an implementation mechanism which would link their implementation capacity, provision of capacity-building support and the timing and level of commitments.

31. Discussions on agriculture have addressed tariff rate quotas, food security issues and the phase-out of export subsidies by 2013, setting aside all other outstanding issues. A proposal on food security was aimed at allowing food to be purchased for stockholding at subsidized administered prices from low-income and resource-poor farmers to be exempt from the "aggregate measure of support", i.e., to be exempt from any disciplines on reduction of support.

32. On development, harvesting 28 agreement-specific special and differential treatment provisions and establishing a monitoring mechanism for special and differential treatment has been debated. Strengthening 88 special and differential treatment provisions was originally at issue. The least developed countries have called for fully delivering on issues specific to them, including duty-free and quota-free market access, the cotton issue and preferential market access on services under the waiver adopted in 2012. Meanwhile, a positive outcome is that the transition period for the least developed countries to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) has been extended for another eight years until 2021.

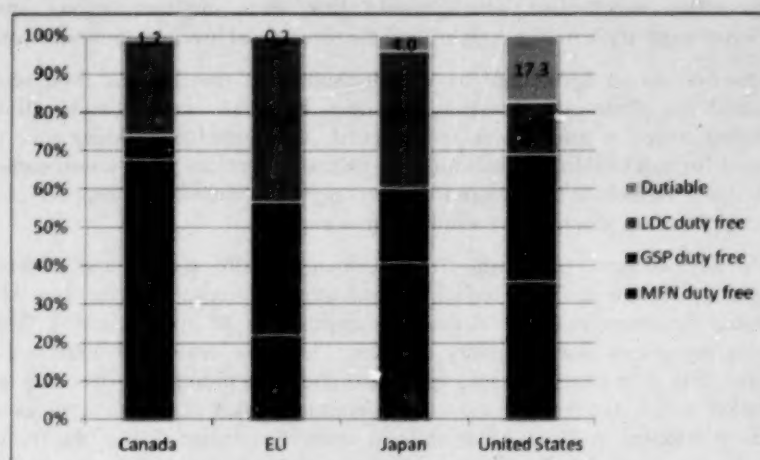
33. As regards duty-free and quota-free market access for the least developed countries, the target to provide duty-free and quota-free market access for at least 97 per cent of tariff lines, as set out in the annex to the WTO Ministerial Declaration adopted on 18 December 2005, has been met by all but one of the developed countries. The United States coverage remained at 83 per cent in 2010, mainly as apparel products are not covered under its Generalized System of Preferences for the least developed countries. Another related issue is to facilitate the exports of the least developed countries through simplified and more transparent rules of origin. The reform of the European Union Generalized System of Preferences rules of origin implemented in 2011 appears to go in the right direction.

Box 2

Preferences in duty-free and quota-free market access for the least developed countries

The manner in which duty-free and quota-free treatment is provided appears to differ remarkably across the so-called "Quad markets" (Canada, the European Union, Japan and the United States). Canada relies heavily on most favoured nation duty-free tariffs, while in the European Union, as many as 43 per cent of tariff lines are duty-free only for the least developed countries. The use of preferences implies that the utilization and coverage of preferences have an important bearing on the extent to which exporters from the least developed countries benefit from duty-free and quota-free market access.

**Tariff lines covered by different tariff regimes, Quad markets, 2010
(per cent)**



Source: TRAINS/WITS.

Preliminary estimates suggest that measured by import value terms (2009), least developed country imports that effectively receive duty-free and quota-free treatment become lower when preference utilization is taken into account. In the United States, the duty-free and quota-free coverage of import values appears to drop from 72 per cent to 39 per cent, owing to a low preference utilization rate of mineral fuels (with low preference margins), in addition to non-coverage of apparel products under its Generalized System of Preferences for the least developed countries. For the European Union, duty-free and quota-free coverage also appears to decrease, albeit to a lesser extent, from 99 per cent to 91 per cent due to less than full preference utilization.

C. Plurilateral approaches within the World Trade Organization

34. Increased attention has been given to plurilateral approaches outside the WTO negotiating context, as major countries seek to achieve deeper liberalization of sectors particularly relevant to modern economies.

35. Ongoing discussions among the parties to the Information Technology Agreement aim to expand the product coverage and participating countries to support vibrant trade in information technology-related products, which are often traded through global value chains. World exports of these products almost tripled in value between 1996 and 2010 to reach \$1.4 trillion, representing 9.5 per cent of global merchandise exports. The Agreement, concluded by 29 participants in 1996, today counts 76 participants, representing 97 per cent of world trade in the sector. Tariff elimination is expected to facilitate trade in global value chains and promote innovation and access to technology. Adjustment challenges could arise for those

countries with uncompetitive domestic production in the form of reduced government revenue and increased imports. These negotiations were suspended in July 2013 owing to disagreements on product coverage.

36. On services, 22 countries¹⁴ representing 70 per cent of the global trade in services are engaged in negotiations aimed at concluding a plurilateral Trade in Services Agreement. The negotiations were launched in an explicit attempt to overcome the stalemate in the Doha Round. Proponents have stressed the importance of reducing existing market access barriers unaddressed in the Doha Round (table 2). Existing estimates suggest a potential increase in bilateral exports in the order of \$78 billion by addressing such barriers, although this largely depends to what extent the negotiations lead to actual cost reductions in the trade in services.¹⁵ Non-participating countries have raised concern over its implications for the GATS framework and possible adverse effects if the agreement is not on a most favoured nation basis.

Table 2
Index of services trade restrictiveness by subsector (simple averages)

Average	Overall	Financial	Retail	Telecom	Transport	Professional
Developed countries	18.0	6.9	8.0	7.0	22.7	44.5
Developing countries	33.4	28.4	21.3	35.1	34.5	51.8
Transition economies	20.0	21.4	2.5	21.3	27.5	33.7
World	28.3	22.5	16.3	26.9	30.9	48.3

Note: Greater value indicates greater restrictiveness.

Source: World Bank Services Restrictions Database.

37. The Trade in Services Agreement is said to be comprehensive in scope, built upon the GATS approach and capture the liberalization achieved under regional trade agreements with regard to services. The GATS approach, as expected by some participants, would promote subsequent "multilateralization" and the participation of new members. To avoid "free-riding", the application of most favoured nation treatment to non-participating countries would be "temporarily suspended" as long as there is no critical mass of participants. Commitments would be based on applied levels of market access conditions, including through standstill requirements and a "ratchet mechanism" that allows automatic incorporation of additional future liberalization measures. National treatment would in principle be applied on a horizontal basis to all services sectors and modes of supply. Suggested rule-making would address domestic regulation (e.g. licensing procedures), sector-specific rules, the temporary movement of natural persons, government procurement, export subsidies and State-owned enterprises.

¹⁴ Australia, Canada, Chile, Colombia, Costa Rica, European Union, Hong Kong (China), Iceland, Israel, Japan, Mexico, New Zealand, Norway, Panama, Paraguay, Pakistan, Peru, Republic of Korea, Switzerland, Taiwan Province of China, Turkey and the United States.

¹⁵ Gary Clyde Hufbauer, J. Bradford Jensen and Sherry Stephenson, "Framework for the International Services Agreement", Policy Brief No. 12-10, Peterson Institute for International Economics (Washington, D.C., 2012).

38. Renegotiations among 15 members of the plurilateral Agreement on Government Procurement were completed in 2012 to update its disciplines and extend its coverage. Reportedly, the renegotiations have added some 200 additional procuring entities to their schedules, as parties have expanded coverage to central and provincial government entities and categories (e.g. services, construction) so far excluded and reduced monetary thresholds. New commitments are estimated to expand market access by \$80-100 billion annually.¹⁶ Government procurement is excluded from mandatory WTO disciplines, as many countries have traditionally used procurement for industrial and social policy purposes by giving preference to domestic industries, small and medium-sized enterprises and certain societal groups.

39. The increased attention given to plurilateral approaches to the WTO negotiations raises the question of the relevance and credibility of the multilateral trading system. The above-mentioned plurilateral agreements differ depending on (a) whether the results of negotiations are extended on a most favoured nation basis and (b) whether the agreement is or would be located within the WTO (see table 3).

Table 3
Typology of plurilateral agreements

	<i>Unconditional most favoured nation treatment</i>	<i>Conditional most favoured nation treatment (preferential)</i>
Within WTO	International Technology Agreement Post-Uruguay Round agreements on basic telecom and financial services	Government Procurement Agreement
Outside WTO	—	Regional trade agreements (GATT Art. XXIV, GATS Art. V) Trade in Services Agreement

Source: UNCTAD.

40. Although plurilateral approaches, bringing together like-minded nations, have proved to be effective in meeting short-term trade liberalization goals, the key question remains how to reconcile such short-term merit with the long-term systemic imperative of upholding and enhancing the multilateral trading system. Depending on the design, plurilateral agreements might have a bearing on some cardinal WTO principles, such as most favoured nation and special and differential treatment, and on the effectiveness of the dispute settlement mechanism and could lead to the fragmentation of the rule-based multilateral trading system.

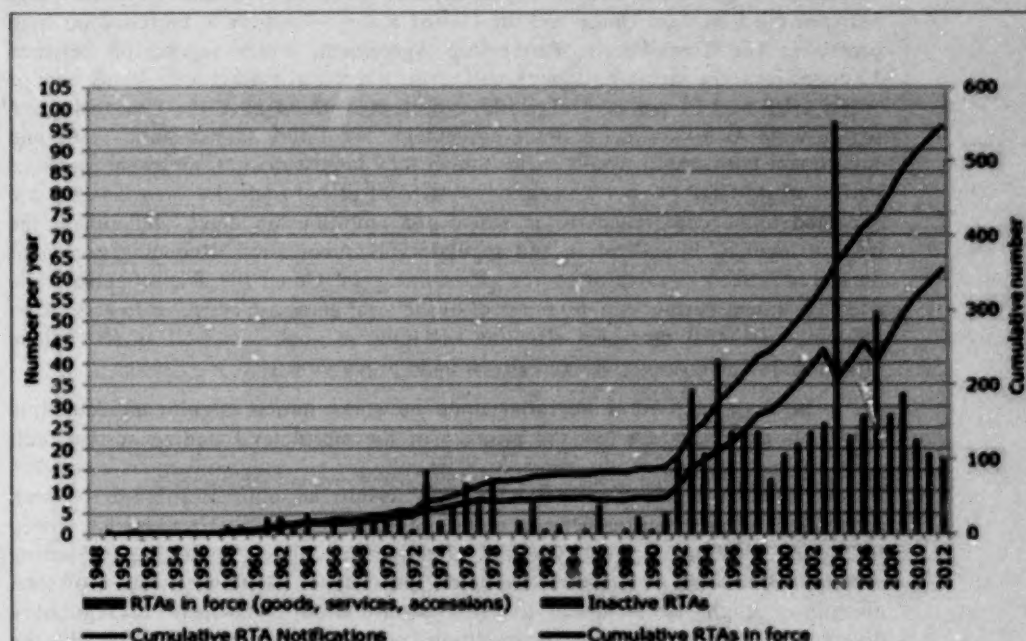
D. Regional trade agreements

41. The increased prevalence of regional trade agreements can be seen as the greatest challenge facing the multilateral trading system. As of January 2013, 546 such agreements had been notified to the WTO and of these, 354 were in force (see figure X). These agreements are estimated to cover nominally (i.e. including

¹⁶ See http://www.wto.org/english/news_e/news11_e/gpro_15dec11_e.htm.

most favoured nation duty-free trade) over 50 per cent of world trade; and 80 per cent of services trade is said to take place among regional partners. Regional trade agreements cannot be simply dismissed as an inherent "foe" to the multilateral trading system as they are here to stay with nearly all countries being party to at least one such agreement. The key question from a development perspective is how to reconcile the two processes, as well as the various processes of the regional trade agreements, so that those arrangements in their totality contribute to convergence under the supremacy of the multilateral trading system.

Figure X
Evolution in the number of notified regional trade agreements



Source: WTO.

42. The so-called "twenty-first century regional trade agreements" differ qualitatively from previous agreements in their scope, composition and depth. They are oriented towards a deeper and more comprehensive integration with a strong regulatory focus. In addition to full market liberalization (with notable exemptions for agriculture), they aim to encompass a whole range of behind-the-border regulatory measures including investment, competition policy, capital movement, intellectual property rights, government procurement, labour standards and the environment. A salient feature is that these agreements are increasingly targeted at the major trading partners. For developed countries, this has meant emerging markets, countries endowed with natural resources and other developed countries.

43. The rise of global value chains as the predominant business model of transnational corporations appears to be significant in creating an incentive for countries to favour deeper regional integration. The trade-intensive and cost-sensitive nature of global value chains points to the case for reducing trade costs

holistically throughout the value chain by addressing the trade-investment-services nexus. It has been argued that this entails, for instance, investment liberalization and investor protection to promote long-term business relationships; still stricter protection of intellectual property rights to support the safe landing of technology; freer movement of business-related persons and capital, including profit repatriation; stronger competition policies to deter uncompetitive practices; harmonization of product standards to reduce regulatory divergence; improved customs procedures to support time-sensitive shipping and just-in-time inventory; and comprehensive liberalization of services, particularly of business, distribution and logistics services.

44. The two emerging mega-scale regional trade agreements — the Trans-Pacific Partnership Agreement and the Transatlantic Trade and Investment Partnership between the European Union and the United States — appear to be based on such premises. The Trans-Pacific Partnership Agreement, under negotiation between 12 countries (now including Japan), will create a regional market with 40 per cent of world GDP and 24 per cent of world exports and might pave the way towards a region-wide Asia-Pacific free trade agreement. The future Transatlantic Trade and Investment Partnership would create the world's largest market, representing about half of world GDP (47 per cent) and one third of global trade. Both agreements are expected to be comprehensive in scope and ambitious in depth and aim at the highest level of liberalization and regulatory harmonization. Reducing non-tariff measures is seen as a major source of income gain. Under the Transatlantic Trade and Investment Partnership, 80 per cent of the total gains are expected to arise from reducing non-tariff measures affecting the trade in goods, as well as restrictions affecting the trade in services and government procurement.¹⁷

45. The expansion of preferential trade networks among significant economic powers is expected to affect the primacy of the multilateral trading system built upon the non-discrimination principle. This calls for ensuring convergence between the multilateral and regional processes to ensure an optimal mixture of both arrangements, as well as coherence among regional processes. There is also a need for strong multilateral oversight and effective disciplines, including by setting minimum standards for regional regulatory provisions. Multilateralization of such disciplines might be required, as their proliferation could lead to regulatory divergence, which increases transaction costs for operators, although the development implications of such multilateralization need to be carefully assessed.

46. Since the twenty-first century regional trade agreements intersect with fundamental socioeconomic interests and values, reconciling the trade-promoting objectives of such agreements with other public policy objectives could be challenging. Some emerging regulatory agenda issues covered or expected to be under regional trade agreements are indicative in this regard.

47. The investor-State dispute settlement mechanism is among those contentious issues. There are concerns that it might confer greater rights on foreign investors in domestic legal systems and lead to "regulatory chill" as regulators might refrain from taking certain regulatory actions (e.g. stronger environmental regulation) for fear of a possible legal challenge under the dispute settlement mechanism, where such actions may be construed as "indirect expropriation". Recent regional trade agreements have

¹⁷ Joseph Francois and others, *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment* (London, Centre for Economic Policy Research, 2013).

incorporated disciplines on capital controls, essentially in order to facilitate the free and timely transfer of capital relating to investments that are covered by regional free trade agreements. The greater recognition given to capital controls after the financial crisis as a legitimate economic policy tool is expected to result in calls for rebalancing the existing approach, which favoured unfettered financial flows.

48. Addressing the potentially anti-competitive effects of State-owned enterprises has attracted increased attention. State-owned enterprises play a significant role in many countries in such areas as telecommunications, minerals and banking and insurance and tend to receive some preferential treatment, such as subsidies, and preferential access to finance. Regional disciplines have sought to level the playing field between such enterprises and private companies by eliminating these structural advantages.¹⁸ Developing countries have stressed the importance of State-owned enterprises in their development strategies and in delivering social services. Furthermore, "localization" policies aimed at supporting domestic industry, services and technology (e.g. local content requirements and requirements to use local infrastructure to provide services, transfer technology and comply with country-specific standards) are increasingly placed under tight scrutiny, while such policies have played an important role as industrial policy tools.¹⁹

49. It is symbolic of the difficulties in reconciling a trade promotion agenda and regulatory objectives that cultural services (e.g. films, television, publications), often supported by subsidies and output quotas, have been suggested for exclusion from the negotiations on the Transatlantic Trade and Investment Partnership.

50. As regards environmental and labour standards, regional trade agreements and the WTO have recognized the right of parties to adopt or maintain measures "necessary to protect human, animal or plant life or health". This general exception can be narrowly interpreted under regional trade agreements to prevent measures aimed at protecting the environment from acting as a disguised form of protectionism. By contrast, recent regional trade agreements have introduced a commitment for the parties not to lower environmental or labour standards to gain export competitiveness or attract investment, which could potentially discourage policies aimed at enhancing productive capacities and competitiveness such as through labour market reform.

E. Implications of the "new" regionalism for developing countries

51. The twenty-first century regional trade agreements may represent a risk for weaker and more vulnerable developing countries, as they can find themselves left out of the regional trade agreement bandwagon, thereby further reducing their chance of integration into global value chains. When they participate in such agreements, these economies continue to be confronted with the "old" agenda of effectively dealing with adjustment challenges arising from market opening. For instance, negotiations between the European Union and the African, Caribbean and Pacific States for comprehensive economic partnership agreements, which started in

¹⁸ Jeffrey J. Schott, Barbara Kotschwar and Julia Muir, *Understanding the Trans-Pacific Partnership* (Washington, D.C., Peterson Institute for International Economics, 2013).

¹⁹ *Trade and Development Report, 1981-2011* (United Nations publication, Sales No. E.12.II.D.5).

2002, are continuing for most subregions, with only the Caribbean region and four African countries having ratified their respective agreements.

52. For those developing countries in a position to put together twenty-first century regional trade agreements, strategic approaches are needed to address substantial power asymmetries in negotiations with their partners, as well as to build productive capacity and reap higher value added in the global value chains that may be promoted by such agreements. Building human, productive and technological capacity, enhancing competitiveness and developing infrastructure will require targeted policies. As new generation regional trade agreements, with their stronger behind-the-border disciplines, increasingly constrain the ability of countries to implement proactive trade and industrial policies, it is important that market opening objectives are critically balanced with the flexibility to design and implement measures to build essential productive capacities and move up the value ladder.

53. Consolidation and expansion of existing South-South regional integration initiatives are increasingly pursued as a strategy to support the integration of developing countries into regional value chains. Consistent with their vibrant intraregional trade, Asian countries have accelerated their engagement in regional trade agreements. For instance, the Association of Southeast Asian Nations (ASEAN) is headed towards the formation of an ASEAN Economic Community. The China-ASEAN free trade area has emerged as the world's largest regional trade agreement, comprising one third of world population and 13 per cent of world GDP. Regional integration in Africa now aims to boost intra-African trade by fast-tracking the establishment of a continental pan-African free trade agreement by 2017, building upon the existing tripartite free trade agreement initiative between the East African Community, the Common Market for Eastern and Southern Africa and the Southern African Development Community and through consolidation between regional economic communities in other parts of Africa.

54. South-South trade cooperation at the interregional level could promote a cross-fertilization of intraregional trade. Capable of connecting major growth poles in different continents, the Global System of Trade Preferences among Developing Countries, as reinvigorated by the conclusion of the third round of negotiations (São Paulo Round) in 2010, shows strong potential to bring significant gains. The recent ratification of the São Paulo Protocol by Cuba brought the agreement closer to effective implementation.

F. Other "new" issues and challenges

55. In the long run, upholding and strengthening the multilateral trading system to better respond to current and emerging economic realities will be crucial for reinvigorating the global partnership for development. The report of the Panel on Defining the Future of Trade, convened by the Director General of the WTO, identified a four-pronged "convergence" challenge faced by Governments, namely, convergence (a) among WTO members in negotiations; (b) of non-multilateral trade regimes with the multilateral trading system; (c) between trade and other domestic policies; and (d) between trade and public policy non-tariff measures. Recognizing various transformational changes in international trade, the Panel noted some issues as potentially relevant to the multilateral trading system, including competition

policy, investment, currencies, trade finance, labour, climate change, corruption and the coherence of international economic rules.²⁰

56. The increased prevalence of global value chains is said to have called for a shifting focus of trade liberalization approaches and rules in favour of deeper liberalization and regulatory harmonization, including on competition and investment rules. Such a "new trade narrative" would need to be carefully balanced, bearing in mind the development implications of global value chains. Developing countries stress that since the developmental benefits of global value chains do not automatically flow from market opening, policies aimed at building productive capacity in activities that deliver greater value added and employment are legitimate and should be widely recognized.

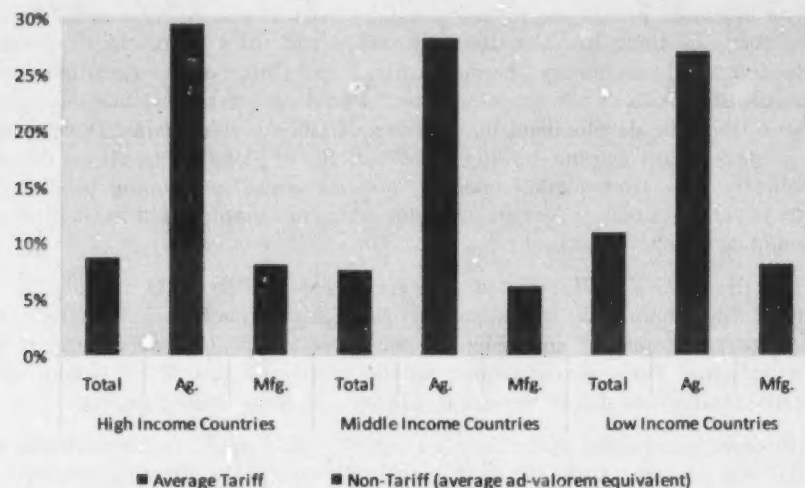
57. The fourth Global Review of Aid for Trade of the WTO in July 2013 underlined the importance of supporting strategies through Aid for Trade to "connect to value chains" and move up the value chain. This debate points to another systemic challenge pertaining to the place and design of special and differential treatment and development flexibility within the trading system.

58. However, recognition of the "new narrative" should not be to the detriment of the "old" and persistent trade issues ranging from tariff peaks affecting developing countries and escalation to trade-distorting agricultural subsidies. Indeed, continuation of the structural reform of agricultural trade policy, particularly in developed countries, remains one of the most relevant means to connect poor farmers with markets, to attain food security and to promote global sustainable development.

59. The increasing prevalence of global value chains and declining tariffs have underscored the trade-restrictive effects of non-tariff measures, particularly pertaining to human and animal health, safety and environmental regulations. UNCTAD research finds that, on average, non-tariff measures increase trade costs more than tariffs for all income groups, particularly in the agriculture sector (see figure XI). Exporters from low-income countries are particularly hard hit as non-tariff measures tend to fall on sectors of their export interest (e.g. food, textiles and apparel), while compliance costs are relatively higher for small-scale exporters from developing countries. The difficulty arises from the fact that since non-tariff measures are often based on legitimate public policy purposes, they cannot simply be eliminated.

²⁰ *The Future of Trade: the Challenges of Convergence* (Geneva, WTO, 2013).

Figure XI
Tariffs and non-tariff measures faced by exporters



Source: UNCTAD.

60. This points to the importance of the mutual recognition of regulatory measures and a coherent approach to rule-making in trade and public policies, particularly because there are a growing number of public policy measures that affect trade. Likewise, private standards have become a growing feature of contemporary international trade and, although they can advance sustainable production and consumption patterns and the internalization of environmental and social costs, they can also become hurdles, particularly for small and medium-sized enterprises in developing countries.

61. Despite recognition of the intrinsic difficulties of ruling in this area, a great deal of interest has also been expressed in addressing exchange rate misalignments in the WTO. These can drastically change the competitiveness of emerging economies and nullify the tariff reductions painstakingly negotiated at the multilateral level. Border tax adjustments and measures to support local producers of green sectors have generated several disputes (see box 3). Greater attention has been given to food security as higher food prices accentuate the importance of supportive measures, such as subsidies for production and stockholding, and export restriction. Similarly, high commodity prices would continue to place energy security and access to raw materials high on national policy agendas, with potential associated tensions expected over energy subsidies and export restrictions.

Box 3

Recent trade disputes over the trade-environment nexus

Several recent cases pertain to trade-related policy in pursuit of environmental objectives. There is growing concern over the decision of the European Union to impose provisional anti-dumping duties on imports of solar panels and their component wafers and cells from China. The United States has already imposed both anti-dumping and countervailing duties on Chinese-made solar cells since late last year, while the European Union is conducting a separate investigation into solar subsidies in China. Similarly, the United States has filed a complaint at the WTO over a local content requirement in the Indian national solar programme. The WTO Appellate Body has confirmed that the local content requirement in the feed-in tariff programme for renewable energy in the Canadian province of Ontario is inconsistent with WTO rules. The proposed application of the European Union emissions trading system to the aviation sector, a measure much contested by its trading partners, has been temporarily suspended.

IV. Conclusions

62. Trade should play a central role in international efforts towards the development agenda beyond 2015 for inclusive and sustainable development. Transformational shifts in the global economy in the twenty-first century have presented both challenges and opportunities for trade to play this role. These need to be addressed by conscious policy efforts, as the successful transmission of gains from trade integration to broad-based inclusive development is not an automatic process. Trade policy alone cannot put in place the conditions necessary for this to happen but needs to be supported by a wide range of complementary policies within a coherent and integrated strategic development framework. It should aim to enhance the link between trade, productive investment and employment creation by promoting diversification into higher value added activities.

63. Together with well-functioning markets, the role of the State is pivotal in identifying and implementing policy mixes that are best fitted to national circumstances and conditions. Strengthening coherence in international economic policymaking, not only between trade and international finance but also between trade and development policies, might be instrumental for aligning trade liberalization approaches with inclusive development imperatives. Coherence should also be reinforced between multilateral and regional agreements, so that these arrangements in their totality can be turned into an effective enabling environment for development, and marginalization of the weaker and less developed economies does not take place. Beyond the Doha Round, reinvigorating the negotiating function of the multilateral trading system will need to be tackled in the future. For global economic governance to be attained, a strong dispute settlement mechanism in the WTO has to be accompanied by a proper legislative functioning of the system, able to make rules in existing and new areas.

64. The United Nations system, particularly its "Geneva hub", can and should play a catalytic role in strengthening the multilateral trading system. Different cooperative frameworks put in place by UNCTAD and other partners have proven particularly successful in the last decade when dealing with sensitive issues in areas such as investment, trade facilitation and competition policy. They were based on a soft law-making approach, which consists in forging an international consensus on emerging issues through better data and analysis, knowledge of best practices, model laws and regulations, peer reviews, policy reviews and other means of knowledge creation and consensus-building. Such cooperative frameworks could be instrumental in creating an enabling environment in the area of trade, contribute to unlocking obstructed negotiating processes and therefore bolster the multilateral trading system.